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March 26, 2007

Office of the Comptroller of the Currency  
Public Information Room, Mail Stop 1-5  
250 E Street, SW  
Washington, DC 20219

Steven Hanft, Clearance Officer  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Attention: OMB Control No. 1557-NEW

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Information Collection Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20552

Attention: OMB Control No. 1550-NEW

Re: Joint Notice of Proposed "Advanced Capital Adequacy Framework  
Regulatory Reporting Requirements" Relating to Basel II

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("The Clearing House"), an association of major commercial banks<sup>1</sup>, appreciates the opportunity to comment on the proposed supplemental regulatory reporting requirements related to the Joint Notice of Proposed Rulemaking regarding the implementation of the Advanced Capital Adequacy Framework (hereinafter, the 'regulatory reporting schedules', and the 'NPR') published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision (together, the "Agencies").

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<sup>1</sup> The members of The Clearing House are Bank of America, National Association; The Bank of New York; Citibank, N.A.; Deutsche Bank Trust Company Americas; HSBC Bank USA, National Association; JPMorgan Chase Bank, National Association; LaSalle Bank, National Association; UBS AG; U.S. Bank National Association; Wachovia Bank, National Association; and Wells Fargo, National Association.

Overall, The Clearing House supports the Agencies' objective to adopt a new capital accord that is risk-sensitive and that will more accurately correlate capital adequacy requirements with banking risks. In general, the scope of this letter will be limited to the proposed supplemental regulatory reporting schedules, the new "FFIEC 101" report. Separately, several of our member banks or their parent companies are submitting individual comment letters to the Agencies on the entire set of proposals in the NPR.

The Clearing House has significant concerns with respect to the particulars of the proposed supplemental regulatory reporting schedules, as summarized below and as further elaborated in the appendix to this letter.

### **Reporting Burden**

The supplemental regulatory reporting schedules constitute a significant and excessive incremental reporting burden. We therefore recommend that the Agencies permit additional time to file the schedules and eliminate certain specific requirements, as indicated below, that go beyond the international Basel II requirements ("International Framework").

The proposed filing deadlines for FFIEC 101 regulatory reporting schedules are unrealistic given the volume of proposed disclosure information. Many of the U.S. reporting requirements are not required to support risk-weighted asset and capital calculations, but represent additional U.S.-only data requirements (e.g., retail score data, loan-to-value ratios for residential mortgages, etc.). We oppose additional requirements for quarterly reports for the purpose of meeting the Agencies' additional need for analysis when this objective can be met more efficaciously through other means, including specialized data requests, annual reviews and supervisory examinations.

We note that the Agencies have explicitly stated that the reporting proposal is not designed to satisfy the NPR's Pillar 3 public disclosure requirements. The related risk for many of these items does not change frequently, e.g., geographic and industry concentration disclosures, and maturity profiles. These are currently only required on an annual basis in the SEC Form 10-K. We would generally oppose duplication of Pillar 3 requirements in quarterly regulatory filings where this information can be made available through other means.

Our comments below and in the appendix address the reporting burden in more detail.

### **Timing and Frequency**

While the Agencies expect the due dates for the proposed schedules to be identical to current report due dates, we believe more time is needed to prepare and submit these

schedules. At a minimum, we expect to need 60 to 90 days after quarter end to complete these schedules.

The Basel II Framework calls for Pillar 3 disclosures on a semi-annual basis. We believe this frequency was agreed internationally to acknowledge the reporting burden. The Agencies' proposal for U.S. quarterly reporting creates a competitive burden issue for U.S. banking organizations versus non-U.S. banks.

Consequently, our member banks strongly recommend that the Agencies provide for the following:

- During the Parallel Period, banking organizations be allowed flexibility as to timing for the regulatory reporting schedules rather than meeting current filing deadlines, and all data will remain confidential (as proposed).
- During the Transition Period, the regulatory reporting schedules be on a 60 to 90 day filing schedule, and consideration should be given as to requiring some of the information on a semi-annual rather than quarterly reporting basis.
- For reporting after the Transition Period, the Agencies will reassess timing without presumption in favor of a quarterly/35 and 40 day timeline, in consultation with industry and based on experience gained during the full implementation of Basel II.

### **Phased Reporting**

We have significant concerns about the initial level of detail proposed in both the public and confidential regulatory reporting schedules, which we believe are more appropriately addressed through a phased approach to reporting. Supervisory concerns are better met through special data requests and examinations, particularly during this formative stage. A phased approach would provide the Agencies with sufficient time to gain the experience necessary to determine which information is both relevant and practical for regulatory reporting and which information is more appropriate for supervisory data requests.

Consequently, we recommend that the introduction of both public and confidential reporting should be phased in, based on a different timeline than proposed by the Agencies. Generally, we believe that much of the detailed information in the proposed schedules that are specifically tied to the Basel II capital calculation under Pillar 1 should remain confidential until the U.S. version of Basel II is 'stable' in order to avoid confusion in the public markets.

A phased approach will allow the Agencies:

- to engage in full-scale consultation with the industry;
- to reconsider (including the option to eliminate) U.S.-only requirements that do not relate to the capital calculation;
- to re-evaluate the proposed operational risk disclosures that are intended as public but which our member banks believe should be confidential;
- in general, to look for opportunities to streamline the reporting requirements;
- to clarify what is meant by the CFO certification;
- to prepare a comprehensive Basel II Glossary that contains a common reporting language.

Additionally, this phased approach will allow the Agencies and the banks to work out mutually acceptable procedures for the handling of proprietary and confidential information.

Specifically, we believe that during the Transition Period, quarterly public disclosures in the proposed FFIEC 101 report schedule B should be limited to the GAAP financial balances and related risk-weighted assets, as found in Columns B, C, and G. We strongly recommend that the information proposed in Columns A, D, E, F and H should not be made public and should be eliminated from Schedule B given that this requirement merely duplicates information to be provided to the Agencies on a confidential basis in Schedules C to U.

#### **“Lookback” Reporting on a Quarterly Basis**

Our member banks are opposed to any form of “lookback” reporting on a quarterly basis, as proposed in Question 1 relating to the U.S. supplemental regulatory reporting requirements. We believe that similar goals can be accomplished through Pillar 2. For example, the Agencies could review banking organizations’ existing internal analyses of period-to-period migration across rating grades or segments. Using these internal analyses would reduce the reporting burden. Therefore, we strongly urge the Agencies to eliminate this as a reporting requirement.

As elaborated further in the appendix, we believe that the lookback reporting would constitute the single most significant reporting burden and incremental cost that goes beyond the international requirements of the Basel II Framework. The quarterly lookback would entail rerunning the entire Pillar 1 capital calculation process, not just the capital calculation for those portfolios or those credit risk parameters that have experienced significant changes. We note that this would have to be accomplished without disrupting the regular quarterly production cycle for the actual Pillar 1 capital calculation.

### **Credit Risk Mitigation Disclosures**

The requirement in the proposed supplemental reporting schedules to include certain data relating to guarantees and credit derivatives would constitute, for some of our member banks, a significant burden and incremental cost caused by U.S.-only requirements.. The requirement to report the impact on risk-weighted assets of these forms of credit risk mitigation should be modified.

The FFIEC 101 regulatory reporting schedules include detailed requirements for calculation and disclosure of the impact of guarantees and credit derivatives on **risk-weighted assets** that go beyond both the Pillar 3 requirement in Table 11.7 of the NPR and information needed to compute risk-weighted assets for Schedule B.

This requirement, separating the risk of the borrower and that of the mitigants, is not currently part of bank risk management practices for certain borrowers (e.g., subsidiaries with parental guarantees). Requiring banks to segment the impact solely for regulatory reporting may, for some banks, require a costly re-engineering of some credit risk management practices with no practical benefit.

Alternatively, we believe a more practical approach is to ask for related EAD amounts and not require “with and without” risk-weighted asset calculations. The EAD provides a relevant indication of volume that can be used by the Agencies to identify and monitor individual banks with significant exposures.

### **Operational Risk Reporting**

Our member banks are strongly opposed to the proposed public disclosures for operational risk in the regulatory reporting schedules, which far exceed the public disclosures required by the International Framework. The detailed information related to the component breakdown of operational risk capital will be confusing at best and, our member banks believe, misleading in the public domain, especially given there is at this time no common methodology or standards for the calculation of the reporting elements for operational risk.

We are also strongly opposed to the proposed reporting requirements for operational risk identified as confidential. Requesting such information quarterly is contrary to the principles outlined in the NPR and the consultative documents supporting the NPR, and would represent another undue reporting burden because it would mandate a quarterly exercise that is on the same scale as a quantitative impact study for operational risk. A better alternative would be to capture this information through supervisory reviews.

**Conclusion**

We have highlighted several major reporting issues in the joint notice that require further consideration. These issues are addressed in more detail in the appendix to this letter, which includes further discussion of our recommendation that the Agencies eliminate or modify certain requirements that exceed the requirements of the International Framework.

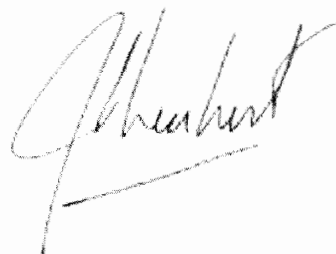
Again, we strongly suggest that a “phased” approach be considered to allow for sufficient time to assess the regulatory reporting requirements and develop the necessary systems and procedures to complete the regulatory reporting schedules prior to commencement of actual filing. There is precedent for phasing in reporting requirements over a period of time so that regulators and industry may learn from the process.

We concur with the Comptroller’s view expressed below (remarks made by John C. Dugan, Comptroller of the Currency, before the Institute of International Bankers in Washington, D.C. on March 13, 2006):

- “...the questions raised [by Basel II ] can only be fully answered by observing live Basel II systems that are based on a definitive set of agency rules and are subject to meaningful supervisory validation and scrutiny...”

The Clearing House appreciates the opportunity to share our concerns on the supplemental regulatory reporting requirements associated with the Joint Notice of Proposed Rulemaking regarding the Advanced Capital Adequacy Framework. If the Agencies would like additional information regarding these comments, please contact Norman R. Nelson, General Counsel of The Clearing House at (212) 612-9205.

Sincerely yours,



## **APPENDIX**

### **Comments on Proposed U.S. Supplemental Regulatory Reporting Schedules**

## **OVERALL COMMENTS ON THE PROPOSED SUPPLEMENTAL REGULATORY REPORTING SCHEDULES**

Overall, we have two major concerns with the proposed regulatory reporting requirements.

(1) The proposed templates will force sub-optimal solutions for systems data collection and aggregation, primarily because of requirements that go beyond the international Basel II requirements (“International Framework”). The most significant U.S.-only requirements are:

- Weighted average PD percentages for mandated portfolio cuts (rather than the use of the bank’s internal categories)
- Impact of guarantees and credit derivatives on the calculation of risk-weighted assets
- Loan-to-value ratios for residential mortgage exposures
- External credit bureau scores on retail exposures by pre-determined PD bands
- Aging of accounts for retail exposures
- Proposal for a “lookback” analysis

Such information is not practical to store and calculate in typical financial systems, unlike other reporting requirements in Basel II. The aggregations of such information will not follow simple logic due to their complexity. For example, how are bureau scores to be added together from U.S. and non-U.S. bureaus that are determined on a different basis? Further, most of these U.S.-only requirements are not related to the calculation of risk-weighted assets.

(2) The regulatory reporting schedules (especially Schedule B) emphasize PD as the primary risk indicator but they should focus instead on risk-weighted assets as the primary measure of riskiness in this context, because it includes all factors and input variables. The interrelationship of these factors has been finely calibrated as a result of the statistical research by the Basel Committee and industry over the years and is embedded solely in the risk-weighted asset amounts. The schedules downplay this critical measure.

Instead, a derived effective risk-weight percentage should be the focus, not the four inputs (PD, LGD, M, EAD) into the formula. PD is not a satisfactory risk measure because its impact is not linear in the Basel II formula. The same goes for the “capped-at-5-years” maturity factor. Although LGD and EAD are the only two inputs that have a linear impact, disclosures emphasizing these elements would not be useful to market participants because they are not common measures, (and we expect) not generally understood, and can be difficult to explain to the general public within the highly-specific rules of the Basel II framework and the U.S. version.

### **Recommended Actions**

Given the practical limitations to the volume of filing requirements, we recommend that the Agencies consider the following:

- To alleviate the significant increase in reporting burden, the Agencies should allow, at a minimum, 60 to 90 days for the filing of Schedules C to V. There is currently a significant volume of reporting to the Agencies in the time frame from 35 days to 60 days after quarter end. We note that the Basel II Framework calls for a semi-annual, not a quarterly, reporting standard for disclosures.
- Introduce a phased approach for all proposed disclosures, in particular, Schedule B: in the first two years of the Transition Period, limit the quarterly reporting in the public documents such as the FR Y-9C and Call Report to the risk-weighted asset amounts by exposure type and the related on and off balance sheet financial amounts. Reassess after two years whether to continue to require these and other additional data.
- The look-back analysis, if ultimately determined to be meaningful, should be limited to Pillar 2 procedures, such as examinations and model validations, and not required on a quarterly basis.

Furthermore, we strongly recommend the following:

- During the Transition Period, banking organizations should be allowed flexibility as to timing of submissions for those confidential disclosures to regulators that are supplemental to the components of capital and risk-weighted asset amounts to be included in public bank Call Reports and FR Y-9C reports.
- We wish to point out to the Agencies that issues arising from items deemed by the banking organization to be proprietary and confidential may impact the timing of submissions of public data, and we believe that banking organizations should have an explicit right to hold back such information until the matter is resolved. Such items are currently expected to have no impact on safety and soundness concerns, credit rating agency or SEC disclosure requirements and would not be beneficial to investors and analysts because we expect generally they would be related to highly-specific details of the Basel II capital calculation process.
- At the end of the Transition Period, we recommend that the Agencies re-evaluate, in consultation with banking organizations, the reports and related instructional guidance to determine appropriate public or confidential disclosures going forward. The Agencies are requested to provide clarifying criteria for all such disclosure items that banking organizations and/or the Agencies have found to be problematic.

### **Questions posed in the Reporting Request**

The remainder of this appendix consists of our responses to Questions 1, 2, 3, and 4 of the Information Collection Activities Comment Request.

### **Proposed U.S. Supplemental Regulatory Reporting Schedules**

#### ***General Comments***

First, we agree with the following Agency proposals:

- Two summary schedules would be included in the quarterly filings, which are available to the general public, but the remaining proposed schedules would be confidential filings to the Agencies. We strongly agree with this confidential treatment for the supplemental schedules. (However, we do not fully agree with the content of Schedule B, as noted elsewhere.)
- The scope is limited to each bank that qualifies for and applies the advanced internal ratings based approach for credit risk (and the advanced measurement approach for operational risk) for its capital adequacy calculations. Therefore, a subsidiary depository institution (DI) that does not intend to use AIRB should be allowed to opt-out.

However, we strongly disagree with the following, which arise primarily because of U.S. exercise of national discretion:

- The “lookback” portfolio analysis would constitute the single most significant reporting burden that goes beyond the International Framework.
- We recommend that consistent titling and referencing be used throughout the schedules in order to eliminate confusion. For example, we believe it is important to re-title the line item in each schedule that is called “Immaterial Exposures” to “Credit Exposures on Other Methods” and change the purpose of this line item accordingly.
- Furthermore, the NPR and/or the reporting templates do not have clear and adequate definitions. A separate glossary needs to be issued by the Agencies in order to assess and implement the categories. There is significant risk of unintentional mis-interpretation by banking organizations due to lack of clear definitions, instructions and formal interpretive guidance.

The proposed U.S. supplemental regulatory reporting schedules would be an excessive, incremental reporting burden on top of the core set of Pillar 3 disclosures. Even though some of the data collected for the U.S. schedules might be used – although not by design -- to satisfy some of the general Pillar 3 requirements, we believe that the proposal will increase the reporting burden, particularly where U.S. requirements go beyond the International Framework of Pillar 3. We believe this is a reasonable basis to object to specific requirements in the schedules, as well as to the proposed timing.

### ***Response to Question 1***

Our member banks strongly oppose the reporting proposal to submit additional data that summarizes the impact of current versus previous risk parameters for exposures that existed in wholesale and retail credit portfolios as of the previous reporting period (for example, prior quarter, prior year) – the so-called “lookback” portfolio. The stated intent of this proposal is to allow the Agencies to better identify reasons for observed changes in regulatory credit risk capital requirements and to allow for peer comparisons of changes from period to period.

The ‘mechanics’ of this proposal are not sufficiently clear from the Agencies’ description. Nevertheless, we can surmise that this proposal would be excessively difficult to produce from an operational standpoint, particularly on a routine, quarterly reporting basis.

The lookback would entail rerunning the entire capital calculation process, without interfering with the regular production cycle, not just the calculation for the impacted portfolios, and would constitute the single most significant reporting burden and incremental cost that goes beyond the international requirements in the Basel II Framework. The Agencies note that maintaining historical data such as the PD and EAD as of prior reporting periods for each exposure is appropriate. We agree. However, that is not the same as rerunning the entire calculation. Historical data is maintained for specific interrogations. In situations where there has been an immaterial change in the capital requirements, we do not see the reason to perform the calculation twice on such portfolios. Additionally, this approach does not address one factor that could have an equal or greater impact, which is turnover. New customers with a different credit risk profile may cause the change.

We strongly believe that these types of comprehensive “what if” scenarios are not appropriate in routine quarterly reports. We believe that similar goals can be accomplished through Pillar 2. For example, the Agencies could review banking organizations’ existing internal analyses of period-to-period migration across rating grades or segments. This could assist the Agencies in reaching their goal of identifying the causes of changes in credit risks and capital requirements. Using these internal analyses would reduce the reporting burden. Alternatively, a volume/rate analysis could be performed under the Pillar 2 process that would also entail significantly less burden and could be used to identify specific portfolios of concern for further research. If the Agencies desire a specific migration analysis, then we believe this should be focused on specific portfolios and be performed as a special request under Pillar 2, when and if needed, and should not be a fixed requirement under the U.S. version of Pillar 3. Therefore, we strongly urge the Agencies to eliminate the lookback as a reporting requirement.

### ***Response to Question 2***

We agree with the Agencies’ counterproposal to allow banks to report Schedules C to R according to their own PD (internal rating grades) segments. However, we acknowledge that this may result in a lack of comparability among the reporting banks. Under the concept of a phased approach, there would be an ability to reconsider the need for fixed bands over time.

The Agencies’ current proposal for mandated PD ranges requires setting up a calculation process for weighted averages within each range. This is one more incremental process and reporting burden caused by the U.S. version which generally would not exist if banking organizations were allowed to use their own rating grades.

### ***Response to Question 3***

During the Transition Period, a limited number of data elements in Schedules A and B should be made available to the public consistent with the phased approach outlined in our comments above.

We are very concerned about the high volume of interpretations needed for the underlying data and potential for adjustments in reported figures. Therefore, the Agencies and banking organizations need a sufficient period to be comfortable with this level of detail. We note that during the first two years of transition, the Agencies will retain capital floors of 95% and 90%, respectively; therefore, we do not expect most details of the Basel II reporting schedules to be useful to the public at that phase. Furthermore, we request the Agencies to develop guidelines for dealing with adjustments that are flexible and fair and published in advance to the banking organizations due to the newness and complexity of the data for all parties.

#### ***Response to Question 4***

Banking organizations should be allowed to apply standardized methods, whether Basel II or Basel I, to portfolios for which it is not cost-effective – or not statistically feasible -- to estimate the appropriate credit risk parameters. Such portfolios should be included in Line item 30 on Schedule B (and similar lines on subsequent schedules) and the Line's title should be changed from "Immaterial Exposures" to "Credit Exposures on Other Methods". Use of the term "immaterial" in this context is subject to judgmental interpretations and disagreements. The need for this category is based on real-world fact patterns (i.e., lack of a statistical basis for an internal rating on the portfolio) and not solely on immateriality considerations.

***Refer to our comments below for further elaboration of these questions.***

#### **Comments on Schedule B**

We expect that the Agencies will use Schedule B to recalculate the risk-weighted asset and expected credit loss amounts because all necessary inputs are provided—PD, LGD, EAD, M—as one of their validation and monitoring procedures. However, we are concerned that this may not be accurate or feasible in all situations. Further, this will be a public schedule and general users may misunderstand that point, even if the regulators acknowledge this in a footnote to Schedule B.

Due to the high complexity of Basel II and judgments required, the explanations as to why the actual risk-weighted assets reported do not agree with the simple recalculation from Schedule B could be extremely complex and burdensome. For this reason, we strongly recommend that regulators delay the planned public release of Schedule B until after the second year of transition to give both the banking organizations and the Agencies more time to assess the implications. Alternatively, during the Transition Period, columns B, C and G (financial balances and related risk-weighted assets) could be provided in the public filings, similar to current Schedule R. We note that the other information could be obtained by the Agencies in the proposed confidential Schedules C to U.

Separate from its utility for banking supervisors to assess the reasonableness of the calculation of risk-weighted assets and expected credit losses, it is likely that the individual components such as PD and LGD will be used by market participants for peer comparisons among U.S.

banking organizations. We are very concerned about releasing the portions of Schedule B for public information that contain the U.S. version of LGD (stressed LGDs), which is not consistent with how other foreign regulators have interpreted Basel II. Therefore, such disclosure cannot be compared to those of non-U.S. bank competitors, yet many market participants may do so in error.

Further, providing a single data point for Weighted Average PD% by exposure type (corporate, bank, sovereign, etc.) will be misleading for several reasons:

- These weighted-average disclosures cannot be aggregated across the banking industry.
- Comparisons between individual banks will be misleading because of the simple fact that banking organizations with bipolar distributions (material clusters at both the high end and the low end of the PD range) could appear the same as those with a portfolio clustered firmly in the middle of the range.
- Comparisons between individual banks may also be compromised by lack of clarity from the Agencies about which reporting category certain wholesale exposure types belong to (corporate, bank or sovereign) and different banking organizations may report them in different categories (for example, non-U.S. states and provincial governments; non-U.S. governmental agencies; other public sector entities; bank holding companies; security firm holding companies; multilateral development banks (“MDBs”) that do not receive sovereign treatment under Pillar 1). In this regard, we note that the U.S. Agencies propose in the NPR to not include the entire set of MDBs allowed by Basel II for favorable Pillar 1 treatment.
- Therefore, this single-point measurement is artificial and not meaningful to anyone other than the supervisors for their initial – but not ultimate -- monitoring procedures.
- Furthermore, because Basel II PDs do not coincide with external credit rating agencies measures, this will add to the confusion as market participants attempt to translate into S&P ratings.

Schedule B emphasizes PD as the primary risk indicator but the focus should be instead on risk-weighted assets as the primary measure of riskiness in this context, because it includes all factors and input variables. The interrelationship of these factors has been finely calibrated as a result of the statistical research by the Basel Committee and industry over the years and is embedded solely in the risk-weighted asset amounts. The schedules downplay this critical measure.

PD is not a satisfactory risk measure because its impact is not linear in the Basel II formula. The same goes for the “capped-at-5-years” maturity factor. Although LGD and EAD are the only two inputs that have a linear impact, disclosure of those elements would not be useful to market participants because they are not common measures and we expect not generally understood and can be difficult to explain and/or develop in the Basel II Framework. The derived effective risk-weight percentage should be the focus, not the four inputs (PD, LGD, M, EAD) into the formula.

Similar complications exist when aggregating the Weighted Average LGD% in the proposed schedules. The impact of LGD is linear, but there will be many LGDs associated with each PD anchor (which often has a non-linear impact).

Separately, we request that the Agencies clarify in their instructions that the Expected Credit Loss amount is post-credit risk mitigation.

Finally, as mentioned previously, we believe it is important to re-title line item 30 on Schedule B called “Immaterial Exposures” to “Credit Exposures on Other Methods” and change the purpose of this line item accordingly. There will be exposure types for which it may be determined during the implementation process that a standardized Basel 1 or Basel II or Basel 1A approach is justified. Inter-company credit exposures are one example that should be allowed for this approach. Credit exposures resulting from recent merger and acquisition activity, from continuous development of new products, and from portfolios for which it is not statistically valid or cost-effectively feasible to calculate risk-weighted assets on the AIRB method would be included here. The aggregate amounts of such credit exposures may frequently exceed commonly understood benchmarks of “immateriality”.

The Agencies’ instructions are not clear regarding where to report exposures arising from securities transaction fails-to-deliver. We believe that “fails” should be reported in line item 30, which is another compelling reason to re-title that disclosure.

Considering all of these reasons, if the Agencies proceed with Schedule B, the Agencies should introduce a phased approach: in the first two years of transition, include only the risk-weighted asset amounts by exposure type and the related on and off balance sheet finance amounts in the public FR Y-9C and Call Report Schedule B. Then, the Agencies, in consultation with the banking organizations, can reassess after two years whether to continue to require the additional data on a public or confidential basis.

### **Comments on Schedules C to K: Wholesale**

These confidential schedules provide further details of data elements carried forward to Schedule B for the Wholesale exposure types.

In addition to the stressed LGD proposed by the Agencies, the following data requests are U.S.-only, not in the International Framework or in non-U.S. regulatory requirements per our understanding:

- Exposure Category: Construction IPRE (This is not mentioned in Basel II, the NPR or the reporting instructions.)
- Weighted Average LGD% before consideration of guarantees and credit derivatives (Note that this is irrelevant if the PD substitution method is used instead of the LGD adjustment method.)
- Subcategory Weighted Average Expected LGD
- Effect of PD substitution and LGD adjustment approaches on RWA
- Effect of Double Default Treatment on RWA

The last two data elements require that multiple iterations of the calculation be run to obtain this information. Additionally, there could be a process burden in data maintenance and transmission caused by confusion over duplicative types.

We note that, under Basel II and the NPR, the LGD adjustment for guarantees is subject to a floor based on the PD substitution approach. Therefore, there is little incentive for banking organizations to use the LGD adjustment, in which case why the need for a separate reporting disclosure on a quarterly basis for all banking organizations?

The FFIEC 101 regulatory reporting schedules require calculation and disclosure of the impact of guarantees and credit derivatives on **risk-weighted assets** which goes beyond the Pillar 3 requirement in Table 11.7 of the NPR and information needed to compute RWA for Schedule B. Banks actively incorporate the benefit of credit risk mitigants such as collateral and corporate, personal or government guarantees when making pricing and lending decisions. Without such credit risk mitigants, certain borrowers would not obtain financing. As a result, separating the risk of the borrower and that of the mitigants is not currently part of bank risk management practices as it assumes the bank would lend to the borrower absent the existence of credit risk mitigation is counter to current risk management practices. Requiring banks to segment the impact solely for regulatory reporting may require re-engineering of the credit risk management practices with no practical benefit.

This U.S.-only requirement would be extremely burdensome because it would require a re-engineering of credit risk practices. Banking organizations would be forced to establish credit risk ratings on entities for which this may not be feasible, because the impact requires a PD before the guarantee. This will not be available in most cases where the decision to extend credit is based solely on the strength of the guarantor and not the underlying obligor, for example, a U.S. parent company's guarantee of a non-U.S. subsidiary.

If the Agencies proceed with this information, then we believe the only practical approach is to ask for related EAD amounts and not require "with and without" risk-weighted asset calculations. EAD provides a relevant indication of volume that can be used by the agencies to identify and monitor individual banks with significant exposures. Additionally, EAD would avoid the conceptual confusion caused by reporting the risk-weighted asset impact of a sovereign guarantee in the sovereign section: it is not sovereign exposure that has been reduced, but more likely corporate. Why burden all Basel II reporters – who may or may not have material percentages of their portfolios being guaranteed – with this requirement, particularly if its placement in the schedules is misleading?

Separately, we request the Agencies to clarify the requirement for disclosure of "number of obligors". For instance, where a single guarantor provides credit protection for three different obligors, should that be reported as one obligor (i.e., based on guarantor) or three obligors (i.e., based on the underlying). Additionally, are subsidiaries of parent companies treated as separate obligors? How would different facilities to a single obligor be reported?

#### **Comments on Schedules L to N: Retail Mortgages**

These confidential schedules provide further details of data elements carried forward to Schedule B for the Retail exposure types.

The following data requests require an explicit retail segmentation model of delinquency, scores, months on books (MOB), and loan-to-value ratios (LTV). Neither the International Framework nor the U.S. NPR mandate these segmentations; rather, they provide banks the flexibility to “use a segmentation approach that is consistent with its approach for internal risk assessment purposes and that classifies exposures according to predominant risk characteristics or drivers” (excerpt from the NPR). However, we note that drivers listed in the NPR as mere examples have become part of the reporting schedules.

In addition to the stressed LGD proposed by the Agencies, the following data requests are U.S.-only, not in the International Framework or in non-U.S. regulatory requirements per our understanding:

- Weighted Average LGD% before consideration of guarantees and credit derivatives. Note that this is irrelevant if the PD substitution method is used.
- Loan-to-Value Ratios portfolio cuts
  - We note that the proposed LTV bands do not align with the LTV bands proposed in Basel 1A, which would prevent a comparison between AIRB and 1A banks. Rather than force conformity, we suggest that this disclosure be eliminated entirely, as it is not directly used in the AIRB calculation.
  - We also note that this requires the bank’s segmentation model to use LTV as a driver.
- Weighted average age
  - The Agencies need to clarify that this refers to what is commonly called “months on books” or MOB. Furthermore, the age should be based on any of the following dates: purchased, acquired or originated. Requiring underlying origination dates for all exposures will present a significant cost and reporting burden.
  - This item requires the bank’s segmentation model to use MOB as a driver.
- Weighted Average Bureau Scores (i.e., external, U.S. and non-U.S.)
  - Again, this requires the bank’s segmentation model to use scores as a driver.
  - This field should only contain U.S.-based bureau scores, as international scores would not align. However, the data would be incomplete. In either case, we suggest that this requirement would not result in any benefit and could be misleading.
  - Depending on the specific guidance from the Agencies as to how the weighting should be handled, this may or may not be feasible or meaningful because of blending.
  - Additionally, we fail to see how this is meaningful for business lines that rely solely on internal and/or behavioral scores.
- EAD of Accounts with updated LTVs
  - This item requires a bank to not only collect in its segmentation model the originating LTV, but also to track updated LTVs. Not all business lines track this currently for risk management purposes.
  - In addition, such information is not readily available and banking organizations will find it difficult and burdensome to collect this. Even if this data could be collected, it is currently not practice in all businesses to assess an updated

LTV and, therefore, the aggregated data would be fragmented, incomplete and misleading.

- o Given the Agencies' proposed requirement for quarterly reporting, this would be excessively burdensome for many banks and inconsistent with current risk management practices.
- o Consequently, we request the Agencies to eliminate this disclosure.
- Weighted Average Expected LGD by subcategory
- Credit Scores – Names/types of credit scoring systems that were used

We note that the LTV ratio categories proposed in the NPR are not consistent with the LTV ratio categories proposed in Basel 1A , which signifies the difficulties inherent in requiring this level of detail in quarterly reporting.

As mentioned previously, we believe to aggregate credit bureau scores from multiple sources, particularly for those banking organizations that have significant international retail exposures, is not meaningful.

### **Comments on Schedules O to R: Credit Cards and All Other Retail**

These confidential schedules provide further details of data elements carried forward to Schedule B for the Retail exposure types.

In addition to the stressed LGD proposed by the Agencies, the following data requests are U.S.-only (not in the International Framework or in non-U.S. regulatory requirements per our understanding):

- Weighted Average LGD% before consideration of guarantees and credit derivatives (Note that this is irrelevant if the PD substitution method is used.)
- EAD of Accounts less than two years old
- Weighted Average Bureau Scores (i.e., external, U.S. and non-U.S.)
- Weighted Average Expected LGD by subcategory
- Credit Scores – Names/types of credit scoring systems that were used
- New exposure type not previously mentioned: Other Retail Exposures – Small Business

We do not understand why, at this late date, the Agencies are adding two new exposure types, Other Retail Exposures – Small Business, as well as the Construction IPRE mentioned in Wholesale, and seek further clarification.

### **Comments on Schedule U: Equity Exposures**

Line items 6 through 10 need precise instructions and/or a redesign of the schedule. The flow of these sections is awkward and confusing. We request the Agencies to provide clear and full descriptions of these items in order for banks to assess the true reporting burden and impact. For example, banking organizations need precise instructions how to handle equity investments in investment funds that do have “material” liabilities. It would be useful for the Agencies to provide specific examples of types of entities expected to be in this category, why

such equity investments should be excluded from the equity exposure calculation under Basel II, what is the alternative treatment and whether this is consistent with the International Framework, and why the Agencies concluded that such alternative treatment is appropriate.

### **Comments on Schedule V: Operational Risk**

#### **General Comments:**

Our member banks are strongly opposed to the proposed public disclosures for operational risk in Schedule V, which far exceed the public disclosures required by the International Framework. The detailed information related to the component breakdown of operational risk capital will be confusing at best and, our member banks believe, misleading in the public domain especially given there is at this time no common methodology or standards for calculation of the reporting elements for operational risk. Additional supporting information may be necessary to enable the general public to understand these items, but such additional disclosures would go well beyond what is appropriate and very likely entail proprietary and confidential information.

We are also strongly opposed to the proposed reporting requirements identified as confidential. Requesting such information quarterly is contrary to the principles outlined in the NPR and the consultative documents supporting the NPR, and would represent another excessive reporting burden. We believe there are other ways that the Agencies can conduct a supervisory review of loss data and capital calibrations without instituting what is effectively equivalent to a quarterly Quantitative Impact Study. Some of our member banks have made suggestions in their individual letters.

In order to respond fully regarding Schedule V, we would need more information about the specific types of subsidiaries to which these requirements would apply. Our comments below apply for reporting at the level of the top-tier Financial Holding Company or Bank Holding Company.

Column B requires clarification. Does the total for the current reporting period refer to the reporting period for the schedule that is quarterly or for a model which may be annual?

#### **Specific Line Item Comments to Schedule V:**

**Items 1- 2**            These items are appropriate for public disclosure.

**Items 3 -7**            These items may be valid requests for confidential reporting to banking supervisors but should not be made public. The public reporting required by Schedule V far exceeds the public disclosure required by the International Framework. This additional public reporting could put U.S. banks at a disadvantage to international banks that report under that Framework.

In addition, the level of supporting material that may be necessary for the general public to understand these items would go well beyond what is

appropriate and very likely entail proprietary and confidential information. Without this material, the users of the public information would not be able to make valid comparisons of these line items across institutions. In addition, this reporting involves data that is sensitive from a competitive perspective, e.g., Expected Operational Loss.

For these reasons, we believe these items should be eliminated from the proposed public disclosure for operational risk.

- Item 8** How should our member banks handle different starting and ending dates if these dates differ for frequency and severity estimation?
- Item 9** The requirements for this item are not clear. Our member banks may use different thresholds for different purposes including data collection, reporting, and multiple elements of the modeling framework. These thresholds can then vary by other criteria, e.g., major sector.
- Items 11-15** We would require clarity that this question relates to losses captured as individual events, above certain thresholds. Our member banks may also capture the dollar amount of some smaller losses, below internal thresholds, in the aggregate, and without capturing the number of individual events.
- Item 16-18** We request the Agencies to confirm that these requirements refer to the number of relevant industry events.
- Items 20 - 21** Does the change refer to a change in parameter of a distribution or a change in distribution class? The Agencies should be mindful of the fact that some of our member banks do not use a frequency distribution, based on their research showing that frequency distribution does not impact their capital estimate.
- Item 23 -24** Some of our member banks do not use loss caps and, therefore, we expect the Agencies will accept “not applicable” responses even though the schedule asks for a numerical value.